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Coffee

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Report Highlights:

Colombian coffee production is estimated to fall to 10.9 million (60 kilogram) bags in 2002/2003 marketing year, mainly due to the normal cycle of production.

Production is forecast to grow to 11.8 million in 2003/2004. Recent improvements in prices are expected to improve both production and quality. Stocks are expected to fall below 1 million tons by the end of this year for the first time since the 1980's.

Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report
Bogota [CO1], CO

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Executive Summary

Colombian Coffee output in 2002/03 is estimated to fall to 10.9 million bags, declining 8.8 percent from a year before largely due to the normal pattern of a fall in production after a year of large production. The forecast for the next crop year 2003/04 is for a recovery in production to 11.8 million bags as part of the normal production cycle and due to a recovery in prices. Prices paid to growers during the first quarter of 2003 increased 12 percent from a year ago.

The Colombian industry continues to reduce stock levels, with stocks expected to fall below 1 million bags for the first time since the 1980's. Recent changes in export regulations have removed the mandatory market share arrangement which set aside 30 percent of the export market for Federacafe (the growers federation marketing arm) and 70 percent for the private sector. Coffee exporters currently pay a mandatory levy of 2 US cents per pound for all exports to the Coffee Federation.

Production

Production is expected to fall to 10.9 million 60 Kg bags in 2002/03 (down 8.8 percent) mainly due to the normal decline associated with the biannual production cycle. The fall in production is more pronounced due to the very low prices in 2002 (which had a negative impact on use of fertilizer and other inputs) and the replanting of older plants. While some local analysts are projecting a fall in production to between 10.3 and 10.5 million bags, coffee production through March and recent improvements in prices suggest a production of 10.9 million bags. Through March of this crop year, coffee production fell by 6.0 percent (397,000 - 60 kg bags less compared to the same period a year before) and is estimated to maintain this trend through the end of the crop year.

Post forecasts production will recover in the 2003/2004 (October - September) crop year to 11.8 million bags. The higher production estimate is based on the normal rebound after a drop in production, as well as the recent recovery in the international price and entry of full production of new trees planted since 1998 under the coffee renovation program. Devaluation of the Colombian peso by approximately 30 percent (relative to the US dollar) at a time of relatively low inflation (approximately 7 percent) has also improved the profitability of coffee production, although prices remain low by historical standards.

The program of plant renovation launched in 1998 by the National Growers Federation (Fedecafe) with government support is expected to result in the renovation of 30,000 hectares in 2003 (reaching around 320,000 hectares since 1998). The program does not provide support for renovation of marginal areas which do not have the climatic conditions to produce high quality coffee. The Government payments total 10 pesos (0.4 US cents) per tree. The average age for Colombia's coffee trees was 7.5 years at the start of the program, and currently is calculated at 5.1 years. The optimal altitude for coffee production is between 1,200 and 1,800 meters above sea level (3,940 to 5,900 feet). Specific areas of production in the coffee zone are been identified for specialty coffee production to sell directly to the international consumer.

The government has provided direct payments to growers since 2001 of up to 30,000 pesos per 125 kilogram bag when the local price falls below 300,000 pesos. The government has been cutting the amount of the payment due to higher world prices (and budget constraints), and the payment has recently fallen to 4,000 pesos per 125 kilogram bag (approximately 0.5 cents US per pound at the current exchange rate). Government expenditures for the program in 2002 amounted 34,900 million pesos (US\$13.9 million). The amount approved for the 2003 program is 30,000 million pesos (\$10.7 million).

Prices

The average price paid by the National Coffee Fund to local producers for green coffee in January-March 2003 was 314,114 pesos per 125 kilograms (\$0.45 per pound), up 12.2 percent from a year ago. This price includes the subsidy paid by the government when the price fell below 300,000 pesos per 125 kilogram bag, currently 4,000 pesos (US\$1.40 per 125 kg bag).

The guaranteed minimum price paid to growers by the *National Coffee Fund* (FNC) is a variable price system based on the international price for Colombian coffee, including the quality price premium (or discount) it commands. This price is revised daily based on closing price in the New York commodity exchange. The FNC no longer subsidizes producers when prices fall as was the case prior to 2001, when the FNC maintained a guaranteed minimum price that did not vary with international prices.

Local contacts report that Colombian coffee no longer commands the premium over international prices that it traditionally received. They explain that the change is due to the predominance internationally of coffee mixes containing low quality coffee. Improvements in quality by competing countries and recent problems maintaining the quality of Colombian coffee may also be factors in the lower premium (or in some cases discount) for Colombian coffee.

Local buyers are reportedly concentrating on improving quality by focusing on post harvest handling. A key determinant of quality is the process of peeling and removing the bean by washing and drying the bean the same day as the coffee cherry is harvested. As over 90 percent of coffee farms are smaller than 3 hectares, grower cooperatives have developed a program to build small drying facilities on the farm to improve the coffee quality.

Trade

Most of Colombia's coffee is produced for the export market, 94 percent is green coffee beans while the remaining is roasted and soluble coffee. Due to lower production, Colombia is expected to export 9.87 million bags in the commercial 2002/2003 year (7.5 percent lower than a year before). Figures for the first half of commercial year 2002/2003 showed a 5.6 percent decline on exports when compared with same period a year earlier.

Fedecafe accounts for about 25 percent of all Colombian coffee exports (down from the 30 percent set out in official regulations until April of this year), with the remainder handled by private exporters. Coffee exports earned \$864 million in 2002, the same value as a year earlier despite an increase in volume, because of the reduction in international prices. Thirty-four

percent of all coffee exports went to the U.S. market in 2002. During this decade, Japan has been importing increasing amounts of coffee from Colombia reaching 14 percent of exports during 2002. Although the relative importance of coffee in total Colombian exports is falling, coffee continues to be extremely important for generating employment and welfare in the coffee region.

Small coffee exporters are focusing on the market for high quality coffee in the US and Europe due to the high price premium for these coffees. Coffee sold in this category is not, however, a significant amount of the total coffee exported.

Stocks

Colombia's coffee stocks have fallen steadily since their peak in the mid-1980's, when they reached about 9 million bags. End-of-season inventories have fallen from 2.9 million bags at the end of 1998/99 to 1.4 million bags at end of 2001/2002. Colombia's coffee carryover at the end of 2002/03 is estimated to be 0.92 million bags, 34 percent lower than the previous year. Since coffee production is projected to grow at a lower pace than exports and the Coffee Federation is no longer trying to influence international prices, stocks are expected to decline even further during 2003/04.

Policy

Coffee exporters pay a compulsory check-off to the FNC for all coffee exports. This check-off is a discretionary amount of the export price and currently is \$ 0.02 per pound. New government regulations set a ceiling on the contribution of a maximum value of \$0.06 per pound, which will give exporters greater security on the amount charged.

In new regulations issued in April, 2003, the Colombian Government removed the previous market share requirement which set aside 30 percent of the export market for Federacafe and 70 percent for private exporters. The restriction was removed under an agreement between Federacafe, private exporters and trade superintendency and in large part reflected the current situation where the market share of Fedecafe had fallen to 25 percent. Colombia continues to require that exports of green coffee be sold to roasters, although the exporters' association (Asoexport) is pushing for a change in this policy.

Instead of expanding area, Fedecafe has been promoting improvements in yields and conversion of marginal areas into alternative crops, such as fruits, forestry, and macadamia nuts. Also, plantains have become an alternative crop to plant in association with coffee in order to generate cash flow when coffee prices are low. Recently, the government has launched a program to plant corn between new planted coffee plants to provide additional income when coffee is not being harvested.

The Colombian coffee industry is very interested in seeing the US return to membership in the International Coffee Organization (ICO). The current director is a Colombian citizen, who has made this a top priority. The Colombian industry is interested in any possible changes in U.S. policy as a result of the resolution passed by the U.S. House of Representatives and Senate which stated that the U.S. government should adopt an strategy to help coffee country growers to

overcome the poverty and economic damage caused by low international coffee prices during the last two years. Industry contacts have also placed great emphasis on the decision of the U.S. National Coffee Association to support a return to the OIC, which now has no economic clauses, i.e., exports quotas.

Tables**Colombia: Green Coffee Supply and Demand, 2001/02 to 2003/04**

(1,000 hectares, 1,000 60- kilo bags)

PSD Table						
Country	Colombia					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		10/2001		10/2002		10/2003
Area Planted	805	805	795	795	0	785
Area Harvested	650	650	650	650	0	650
Bearing Trees	2790	2790	2790	2790	0	2790
Non-Bearing Trees	1030	1030	1030	1030	0	1030
TOTAL Tree Population	3820	3820	3820	3820	0	3820
Beginning Stocks	1618	1618	1419	1393	1024	923
Arabica Production	11950	11950	11250	10900	0	11800
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	11950	11950	11250	10900	0	11800
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	80	80	80	95	0	95
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	80	80	80	95	0	95
TOTAL SUPPLY	13648	13648	12749	12388	1024	12818
Bean Exports	9929	10005	9400	9200	0	9800
Roast & Ground Exports	140	120	145	120	0	120
Soluble Exports	560	540	580	550	0	560
TOTAL Exports	10629	10665	10125	9870	0	10480
Rst,Ground Dom. Consum	1350	1350	1350	1350	0	1350
Soluble Dom. Consum.	250	240	250	245	0	255
TOTAL Dom. Consumption	1600	1590	1600	1595	0	1605
Ending Stocks	1419	1393	1024	923	0	733
TOTAL DISTRIBUTION	13648	13648	12749	12388	0	12818

Colombia: Green Coffee Prices to Growers, CY 2002 and 2003

Prices Table			
Country	Colombia		
Commodity	Coffee, Green		
Prices in	Pesos (0,000)	per uom	125 Kg Bag
Year	2002	2003	% Change
Jan	275	324	17.82%
Feb	271	319	17.71%
Mar	293	299	2.05%
Apr	305		-100.00%
May	284		-100.00%
Jun	276		-100.00%
Jul	264		-100.00%
Aug	258		-100.00%
Sep	297		-100.00%
Oct	310		-100.00%
Nov	321		-100.00%
Dec	291		-100.00%
Exchange Rate	2507.96	Local currency/US \$	

Source: Colombian Coffee Growers Federation (Fedecafe)

Colombia: Green Coffee Exports, CY2002 (1,000 60-kilo bags)

Export Trade Matrix			
Country	Colombia		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	60 Kg Bag (,000)
Exports for:	2002		2003
U.S.	3438	U.S.	
Others		Others	
Germany	1717		
Japan	1459		
Canada	528		
Belgium	478		
England	308		
Sweden	264		
Italy	257		
Spain	257		
France	244		
Holland	213		
Total for Others	5725		0
Others not Listed	1074		
Grand Total	10237		0

Source: Customs Agency (DIAN)